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உள்ளநாட்டு இறைவரித் திணைக்களம்
INLAND REVENUE DEPARTMENT

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Circular No: SEC/2026/E/05

June 26, 2026

Circular to Employers

COMPUTATION OF TAX CREDIT ON SALARY ARREARS FOR THE PURPOSE OF SECTION 96A OF THE INLAND REVENUE ACT, NO. 24 OF 2017, AS AMENDED BY THE INLAND REVENUE (AMENDMENT) ACT, NO. 11 OF 2026, AND RELATED PROCEDURES

This Circular sets out the procedure of calculating tax credit on salary arrears of an employee by an employer as specified in the Section 96A of the Inland Revenue Act, No. 24 of 2017 as amended by the Inland Revenue (Amendment) Act, No.11 of 2026 (Inland Revenue Act) and accordingly the deduction of Advance Personal Income Tax (APIT) and related procedure.

1. What qualifies as “Arrears of Salary”

As defined in the Section 96A (3) of the Inland Revenue Act, “arrears of salary” means, gains and profits from employment received by an employee in the current year of assessment (Y/A) but in relation to any previous year of assessment from the same employment, as a result of reinstatement in service of an employment or re-appointment to the same employment after a disciplinary action, promotion to a post with effect from a previous date, entitlement to any remuneration increment with effect from a previous date of a previous year of assessment and similar reasons as specified by the Commissioner-General. This APIT credit statutory provisions are effective from January 1, 2024 as provided in the provisions of the Inland Revenue Act,

2. Refunds on Retrospective APIT Deductions

Any excess APIT (as explained in this Circular) deducted on arrears of salary by the employer and remitted to the Commissioner General but after January 1st 2024 but prior to the date of this Circular will be refunded. The procedure for such refunds will be addressed separately.

3. Documentary Evidences

Accordingly, in order to calculate the tax credit, employer shall have following evidences to justify the gains and profits derived by an employee as “arrears of salary” for this purpose;

1. Documentary evidence of reinstatement or reappointment to Service resulting from a court decision, a mediator committee decision, a Cabinet of Ministers decision, or a decision of a Similar Authority.
2. Documentary evidence of Promotion to a post with effect from a previous date, resulting from a court decision, a mediator committee decision, a Cabinet of Ministers decision, or a decision of a similar authority.
3. If an employee is mandatorily entitled to receive monthly cash remuneration but the employer fails to make the payment for the due period, documentary evidence must be maintained to substantiate the employee's entitlement and to explain the reason for non-payment. Such reasons must be beyond the employer's control (e.g., a pending legal case awaiting a decision or approval being sought from another government authority).

The above types of gains and profits are received by an employee in the current year of assessment, but the periods to which these gains and profits relate are attributable to the previous year/years of assessment.

Scenario 1: An employee was terminated from employment on 05.04.2019 due to a disciplinary action. He filed a court case challenging the termination, and on 04.05.2026, the court issued a decision to reinstate him in the same position and ordered payment of his salaries from April 2019. Accordingly, he is receiving salary arrears in the Y/A 2026/2027, even though these remunerations were originally due to him in the Y/A 2019/2020 and subsequent years of assessment.

If the receipt of arrears of salary and the corresponding period of such arrears falls within the same Y/A (the current Y/A), then the arrears of such salary should not be considered for the purpose of granting a tax credit according to this Circular, and the deduction of APIT on such arrears should be calculated in accordance with APIT Table 02.

Scenario 2: An employee was entitled to receive a fuel allowance from April 2026. However, due to a delay in the receipt of approval letters by the accountant, her fuel allowance payments will be commenced in September 2026, along with arrears covering the period from April to August 2026. This Circular does not apply to such case.

4. Calculation of Tax Credits

The tax credit shall be calculated according to the following formula as per the section 96A of the Inland Revenue Act;

$$A = B - C$$

Where,

A - Tax credit allowed for an employee who receives arrears of salary

However, such tax credit shall not exceed the income tax payable by the employee on the arrears of salary for the current year of assessment calculated by applying APIT Table 02 (Step 1 in Item No.5 has to be followed to get maximum tax credit limit).

B - Income tax payable by the employee on the arrears of salary for the current year of assessment. It is equal to the income tax payable on the aggregated employment income of the current year of assessment including the arrears of salary, less the income tax payable on the aggregated employment income excluding the arrears of salary (Step 2 in Item No.5 has to be followed to get the value for 'B').

C - Income tax payable, as calculated in terms of the applicable tax law for each previous year of assessment in which the arrears of salary are derived.

When calculating "C," the remuneration of relevant employee paid during the previous year of assessment should be combined with the attributable amounts of arrears salary for each year of assessment. The applicable tax rates for the respective previous years of assessment should then be applied (Step 2 in Item No.5 has to be followed to get the value for 'B'). To calculate the value 'C' conveniently, employers can use the Excel spreadsheet prepared for this purpose and published in the Inland Revenue Official Web Portal (www.ird.gov.lk → Downloads → Tools → Tax Calculator for computing 'C' in the Tax Credit Formula).

5. Steps to follow in order to calculate Tax Credit - A

Step 1: Calculate the APIT amount on salary arrears (maximum tax credit limit to be granted on the salary arrears) by using APIT Tax Table 2.

Step 2: Calculate B as below;

- I. Compute tax payable including salary arrears using the APIT Table 5 of the Y/A in which the salary arrears is received.
- II. Compute tax payable excluding salary arrears using Table 5 of the Y/A in which the salary arrears is received.
- III. Subtract II from I to get B.

Step 3: Calculate C using the Excel Spreadsheet as below;

- I. Get the Total Gross Remuneration Liable for APIT as per T10 in each year of assessment (Column B)
- II. Get the Total amount of Tax deducted as per T10 (Column C)
- III. Get the salary arrears amounts attributable to each year of assessment (Column D)
- IV. Calculate the Total Gross Remuneration together with Arrears Salary of each year of assessment (Column E = Column B + Column D) – Column E will be auto-filled.
- V. Calculate the Tax Amount of each year of assessment (Column F) - Column F will be auto-filled.
- VI. Compute the sum of Total amount of tax deducted as per T10 ('Sum of Column C') and sum of Tax Amount of each year of assessment ('Sum of Column F') separately.
- VII. Subtract 'Sum of Column C' from 'Sum of Column F' to get the value of C.

(*Column B, Column C, Column D and Column E are the columns in the Excel spreadsheet.)

Step 4: Calculate Tax Credit – A as below;

- I. Subtract C in Step 3 from B in Step 2 to get the value of Tax Credit -A.

Some examples are provided with calculations to illustrate the entitlement of tax credit on arrears of salary payments.

Example 1:

Mrs. Savithri Sathgurunadan, a university lecturer, received arrears for her backdated promotion, effective from January 2023. The total arrears payment, which she should receive up to March 2026, amounted to Rs. 2,350,000. The Y/A-wise break-up of gross remuneration and arrears of salary is presented in the Table below;

Year of Assessment	Total Gross Remuneration Liabe for APIT as per T10 (Rs.)	Arrears Salary (Rs.)
2025/2026	5,232,000	1,047,000
2024/2025	4,680,000	1,047,000
2023/2024	4,200,000	256,000
Total	14,112,000	2,350,000

(** The figures presented is solely for calculation purpose and represents hypothetical values)

Her monthly cash and non-cash benefits totals to Rs. 485,000 in June 2026. Calculate the tax credit entitled to Mrs. Savithri Sathgurunadan on the payment of her arrears of salary. (Please assume that the monthly salary of Mrs. Savithri Sathgurunadan will remain unchanged within the entire Y/A)

Step 1: Calculation of APIT on Mrs. Savithri Sathgurunadan’s salary arrears as per the APIT Table 2 available in the Inland Revenue Web Portal for the Y/A 2026/2027 is as follows;

(a) Computation of Estimated Gross Aggregate Remunerations (EGAR) during the Y/A 2026/2027

	Rs.
Gross aggregate monthly remunerations already paid during the Y/A (Monthly remuneration for the months up to June 2026, 485,000 x 3)	= (A): 1,455,000
Gross aggregate monthly remunerations payable during the Y/A (Monthly remuneration payable from July 2026 to March 2027, 485,000 x 9)	= (B): 4,365,000
Gross aggregate Lump-sum payments already made, being made now & payable during the Y/A (Total Salary arrears received by her is arrears salary for this purpose as entire amounts received for previous years of assessment)	= (C): 2,350,000
Estimated Gross Aggregate Remunerations EGAR (paid and payable) during the Y/A	= (D): 8,170,000

(b) Computation of APIT deductible on Salary Arrears Payment in June 2026

As the EGAR or D falls in the category of *more than 4,300,000*, the following formula should be applied in computing the amount of tax deductible in June 2026 on the salary arrears.

$$\begin{aligned} & (D \times 36\%) - [(1,128,000 + \text{Aggregate of monthly tax deducted on A} + \text{Aggregate of} \\ & \text{monthly tax deductible on B, as per Table 1)} + \text{Tax deducted previously on Lump-sum} \\ & \text{payments, if any}] \\ & = (8,170,000 \times 36\%) - [(1,128,000 + (80,600 \times 3) + (80,600 \times 9) + 0)] \\ & = 2,941,200 - (1,128,000 + 967,200) \\ & = 846,000 \end{aligned}$$

Therefore, APIT deductible on arrears of salary payment in June 2026 is Rs. 846,000.00

Accordingly, maximum tax credit entitled by Mrs. Savithri Sathgurunadan should not exceed Rs. 846,000.

Step 2: Calculation of B

I. Compute tax payable including salary arrears using the APIT Table 5 available in the Inland Revenue Web Portal for the Y/A 2026/2027 in which the salary arrears is received.

$$\begin{aligned} & = 8,170,000 * 36\% - 1,128,000 \\ & = 1,813,200 \end{aligned}$$

II. Compute tax payable excluding salary arrears using Table 5 available in the Inland Revenue Web Portal for the Y/A 2026/2027 in which the salary arrears is received.

$$\begin{aligned} & = (1,455,000 + 4,365,000) = 5,820,000 \\ & = 5,820,000 * 36\% - 1,128,000 \\ & = 967,200 \end{aligned}$$

III. Subtract II from I to get B

$$\begin{aligned} B & = 1,813,200 - 967,200 \\ & = 846,000 \end{aligned}$$

Value of B in Step 2 is equal to the value obtained by applying APIT Table 2 in Step 1.

Step 3: Calculation of C

The calculation of C is as follows using the Excel Spreadsheet.

Year of Assessment	Total Gross Remuneration Liable for APIT as per T10 Rs.	Total amount of Tax deducted as per T10 Rs.	Total Gross Remuneration together with Arrears Salary Rs.	Tax Amount Rs.
2025/2026	5,232,000	755,520	6,279,000	1,132,440
2024/2025	4,680,000	802,800	5,727,000	1,179,720
2023/2024	4,200,000	630,000	4,456,000	722,160
Total	14,112,000	2,188,320	16,462,000	3,034,320

$$C = 3,034,320 - 2,188,320$$

$$= 846,000$$

Step 4:

Therefore, tax credit entitled by Mrs. Savithri Sathgurunadan for the year of assessment 2026/2027 is calculated as follows.

$$A = B - C$$

$$A = 846,000 - 846,000$$

$$= 0$$

In this case, Mrs. Savithri Sathgurunadan's employment income is subject to the maximum tax rate of 36%, both for the previous years of assessment and the current year of assessment. Therefore, she is not eligible to claim a tax credit, and the employer is not required to provide tax credit for the payment of arrears of salary.

Example 2:

Mr. Wasantha Perera is a government employee who was interdicted from employment in April 2017. Following a court ruling, he was reinstated to the same position on September 1st 2026 and is entitled to receive his salary arrears from April 2017. The details of the remuneration entitlement are given below;

Period	Remuneration Entitlement (Rs.)
April 2017 to March 2018	600,000
April 2018 to March 2019	660,000
April 2019 to December 2019	540,000
January 2020 to March 2020	180,000
April 2020 to March 2021	780,000
April 2021 to March 2022	840,000
April 2022 to December 2022	675,000
January 2023 to March 2023	225,000
April 2023 to March 2024	960,000
April 2024 to March 2025	1,020,000
April 2025 to March 2026	1,080,000
April 2026 to August 2026	475,000
Total	8,035,000

(** The figures presented is solely for calculation purpose and represents hypothetical values)

His monthly cash and non-cash remuneration is Rs. 95,000, effective from April 2026. Calculate the tax credit entitled to Mr. Wasantha Perera on the payment of his arrears of salary. (Please assume that the monthly salary of Mr. Wasantha Perera will remain unchanged within the entire Y/A.)

Step 1: Calculation of APIT on Mr. Wasantha Perera's arrears of salary as per the APIT Table 2 available in the Inland Revenue Web Portal for the Y/A 2026/2027 is as follows;

(a) Computation of Estimated Gross Aggregate Remunerations (EGAR) during the Y/A 2026/2027

	Rs.
Gross aggregate monthly remunerations already paid during the Y/A (Monthly remuneration for the months up to August 2026, 95,000 x 5)	= (A): 475,000
Gross aggregate monthly remunerations payable during the Y/A (Monthly remuneration payable from September 2026 to March 2027, 95,000 x 7)	= (B): 665,000
Gross aggregate Lump-sum payments already made, being made now, & Payable during the Y/A (8,035,000 - 475,000)	= (C): 7,560,000
(Total Salary arrears received by him is arrears salary for this purpose as entire amounts received for previous years of assessment)	
Estimated Gross Aggregate Remunerations EGAR (paid and payable) during the Y/A	= (D): 8,700,000

(b) Computation of APIT deductible on Arrears Salary payment

As the EGAR or D falls in more than 4,300,000.00 category, the following formula should be applied in computing the amount of tax deductible on the arrears of salary.

$(D \times 36\%) - [(1,128,000 + \text{Aggregate of monthly tax deducted on A} + \text{Aggregate of monthly tax deductible on B, as per Table 01}) + \text{Tax deducted previously on Lump-sum payments, if any}]$

$$= 3,132,000 - (1,128,000 + 0 + 0)$$

$$= 2,004,000$$

Therefore, APIT deductible on salary arrears payment in August 2026 is Rs. 2,004,000

Accordingly, maximum tax credit entitled by Mr. Wasantha Perera should not exceed Rs. 2,004,000.

Step 2: Calculation of B

I. Compute tax payable including salary arrears using the APIT Table 5 available in the Inland Revenue Web Portal for the Y/A 2026/2027 in which the salary arrears is received.

$$= 8,700,000 * 36\% - 1,128,000$$

$$= 2,004,000$$

II. Compute tax payable excluding salary arrears using Table 5 available in the Inland Revenue Web Portal for the Y/A 2026/2027 in which the salary arrears is received.

$$= (475,000 + 665,000) = 1,140,000$$

as this amount is below the threshold, the tax is zero (0).

III. Subtract II from I to get B

$$B = 2,004,000 - 0$$

$$= 2,004,000$$

Step 3: Calculation of C

The calculation of C is as follows using the Excel Spreadsheet.

Period	Total Gross Remuneration Liable for APIT as per T10 Rs.	Total amount of Tax deducted as per T10 Rs.	Total Gross Remuneration together with Arrears Salary Rs.	Tax Amount Rs.
April 2017 to March 2018	-	-	600,000	-
April 2018 to March 2019	-	-	660,000	-
April 2019 to December 2019	-	-	540,000	-
January 2020 to March 2020	-	-	180,000	-
April 2020 to March 2021	-	-	780,000	-
April 2021 to March 2022	-	-	840,000	-
April 2022 to December 2022	-	-	675,000	-
January 2023 to March 2023	-	-	225,000	-
April 2023 to March 2024	-	-	960,000	-
April 2024 to March 2025	-	-	1,020,000	-
April 2025 to March 2026	-	-	1,080,000	-
Total	-	-	7,560,000	-

$$C = 0-0$$
$$= 0$$

Accordingly, C is for above case zero.

Therefore, entitled tax credit is calculated as follows;

$$A = B - C$$

$$= 2,004,000 - 0$$
$$= 2,004,000$$

Accordingly, tax credit entitled by Mr. Wasantha Perera is Rs. 2,004,000. Therefore, APIT deductible by the employer is calculated as follows.

APIT deductible as per the APIT Table 2	= Rs. 2,004,000
Less: Tax Credit entitled as per above calculation	= Rs. 2,004,000
Deductible APIT in the month of September 2026 on arrears of salary payment	= Rs. 0

Example 3:

Mr. Nilanga Senarathne has received a salary arrears due to his promotion to Super Grade, totaling to Rs. 900,000 which belonged to Y/A 2023/2024, 2024/2025 and 2025/2026 on 28.04.2026 (Y/A 2026/2027) as per the table below. Monthly gross remuneration of Mr. Nilanga Senarathne was Rs. 250,000 in April 2026.

Year of Assessment	Total Gross Remuneration Rs.	Arrears Salary Rs.
2025/2026	3,000,000	400,000
2024/2025	2,300,000	300,000
2023/2024	2,000,000	200,000
Total	6,900,000	900,000

(** The figures presented is solely for calculation purpose and represents hypothetical values)

Calculate the tax credit entitled to Mr. Nilanga Senarathne. (Please assume that the monthly salary of Mr. Nilanga Senarathne will remain unchanged within the entire Y/A.)

Step 1: Calculation of APIT on Mr. Nilanga Senarathne's salary arrears as per the APIT Table 2 available in the Inland Revenue Web Portal for the Y/A 2026/2027 is as follows;

(a) Computation of Estimated Gross Aggregate Remunerations (EGAR) during the Y/A 2026/2027

	Rs.
Gross aggregate monthly remunerations already paid during the Y/A (Monthly remuneration for the months up to April 2026, 250,000 x 1)	= (A): 250,000
Gross aggregate monthly remunerations payable during the Y/A (Monthly remuneration payable from May 2026 to March 2027, 250,000 x 11)	= (B): 2,750,000
Gross aggregate Lump-sum payments already made, being made now & payable during the Y/A (Total Salary arrears received by him is arrears salary for this purpose as entire amounts received for previous years of assessment)	= (C): 900,000
Estimated Gross Aggregate Remunerations EGAR (paid and payable) during the Y/A 2026/2027	= (D): 3,900,000

(b) Computation of APIT deductible on Salary Arrears Payment in April 2026

As the EGAR or D falls in the category of *between 3,800,001 and 4,300,000*, the following formula should be applied in computing the amount of tax deductible in April 2026 on the salary arrears.

$$\begin{aligned}
 & (D \times 30\%) - [(870,000 + \text{Aggregate of monthly tax deducted on A} + \text{Aggregate of} \\
 & \text{monthly tax deductible on B, as per Table 01)} + \text{Tax deducted previously on Lump-} \\
 & \text{sum payments, if any}] \\
 & = (3,900,000 \times 30\%) - [(870,000 + (4,500 \times 12) + (0) + 0)] \\
 & = 1,170,000 - (870,000 + 54,200) \\
 & = 1,170,000 - 924,000 \\
 & = 246,000
 \end{aligned}$$

Therefore, APIT deductible on salary arrears payment in April 2026 is Rs. 246,000.00

Accordingly, maximum tax credit entitled by Mr. Nilanga Senarathne should not exceed Rs. 246,000.

Step 2: Calculation of B

I. Compute tax payable including salary arrears using the APIT Table 5 available in the Inland Revenue Web Portal for the Y/A 2026/2027 in which the salary arrears is received.

$$= (3,900,000 * 30\%) - 870,000 \\ = 300,000$$

II. Compute tax payable excluding salary arrears using Table 5 available in the Inland Revenue Web Portal for the Y/A 2026/2027 in which the salary arrears is received.

$$= (3,000,000 * 18\%) - 444,000 \\ = 96,000$$

III. Subtract II from I to get B

$$B = 300,000 - 96,000 \\ = 204,000$$

Step 3: Calculation of C

The calculation of C is as follows using the Excel Spreadsheet.

Year of Assessment	Employment Income as per T-10	Tax Amount	Salary Arrears Amount	Total Employment Income together with Arrears Salary Rs.	Tax Amount
2025/2026	3,000,000	96,000	400,000	3,400,000	174,000
2024/2025	2,300,000	108,000	300,000	2,600,000	162,000
2023/2024	2,000,000	66,000	200,000	2,200,000	90,000
Total		270,000			426,000

$$C = 426,000 - 270,000 \\ = 156,000$$

Therefore, tax credit entitled by Mr. Nilanga Senarathne is calculated as follows;

$$A = B - C$$

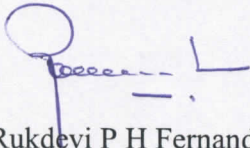
$$A = 204,000 - 156,000 \\ = 48,000$$

Accordingly, tax credit entitled by Mr. Nilanga Senarathne is Rs. 48,000. Therefore, APIT deductible by the employer is calculated as follows.

APIT deductible as per the APIT Table 2	= Rs. 246,000
Less: Tax Credit entitled as per above calculation	= Rs. 48,000
Deductible APIT in the month of April 2026 on arrears of salary payment	= Rs. 246,000 - Rs. 48,000
	= Rs. 198,000

6. Other Important Matters

1. In any case where the current employer requires the employee's employment income details from previous employers (different departments, ministry offices or salary offices), it is the employee's responsibility to request this information from their former employers and submit it to the current employer to facilitate these calculations.
2. If any salary arrears have already been paid from April 1, 2026, to the date of this circular, the calculation according to the procedure explained above may be adjusted by the employer, provided that the **deducted APIT has not yet been remitted to the Commissioner General.**
3. Documents must be maintained by the employer to justify the reasons for the payment of arrears salary (explained above) together with calculation sheets.
4. Certificate of Income Tax Deductions – A.P.I.T/T.10 will be specified in due course to include the tax credit.
5. If any clarification is required in this regard, forward your request to the email tpl@ird.gov.lk



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